

Ms. Trish Kelly, Director of Reimbursement
Integrated Health Services, Inc.
The Highlands
910 Ridgebrook Road, Building 300
Sparks, Maryland 21152

Re: AC# 3-DRF-J7 – Integrated Health Services of Charleston at Driftwood

Dear Ms. Kelly:

The accompanying report has been prepared by our office. based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1996 through September 30, 1997. That report was used to set the rate covering the contract periods beginning October 1, 1998.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency

By request of the state medicaid agency this letter also serves as an official notice of your requirement to respond with a report of planned corrective actions on the recommendations and deficiencies noted in this report within forty-five (45) days of the date of this letter. Your response should reference the audit control number and be addressed to: Division of Home Health and Nursing Facility Services, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina, 29202-8206. You are also required to simultaneously furnish a copy of your corrective action report to the State Auditor's Office.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/sag

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Robert M. Kerr

**INTEGRATED HEALTH SERVICES
OF CHARLESTON AT DRIFTWOOD**

NORTH CHARLESTON, SOUTH CAROLINA

**CONTRACT PERIODS
BEGINNING OCTOBER 1, 1998
AC# 3-DRF-J7**

REPORT ON CONTRACT

FOR

PURCHASE OF NURSING CARE SERVICES

WITH

STATE OF SOUTH CAROLINA

DEPARTMENT OF HEALTH AND HUMAN SERVICES

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

December 14, 1999

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Integrated Health Services of Charleston at Driftwood, for the contract periods beginning October 1, 1998, and for the twelve month cost report period ended September 30, 1997, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Integrated Health Services of Charleston at Driftwood, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, Cost of Capital Reimbursement Analysis and the Comments and Recommendations sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Integrated Health Services of Charleston at Driftwood dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computations of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
December 14, 1999

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

Thomas L. Wagner, Jr., CPA
State Auditor

INTEGRATED HEALTH SERVICES OF CHARLESTON AT DRIFTWOOD

Computation of Rate Change
For the Contract Periods
Beginning October 1, 1998
AC# 3-DRF-J7

	<u>10/01/98- 11/30/98</u>	<u>12/01/98- 03/31/99</u>	<u>04/01/99- 09/30/99</u>
Interim Reimbursement Rate (1)	\$98.47	\$99.22	\$95.71
Adjusted Reimbursement Rate	<u>86.58</u>	<u>87.33</u>	<u>87.33</u>
Decrease in Reimbursement Rate	<u>\$11.89</u>	<u>\$11.89</u>	<u>\$ 8.38</u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 3, 1999

INTEGRATED HEALTH SERVICES OF CHARLESTON AT DRIFTWOOD
 Computation of Adjusted Reimbursement Rate
 For the Contract Period October 1, 1998 Through November 30, 1998
 AC# 3-DRF-J7

	<u>Profit Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$40.76	\$48.65	
Dietary		9.70	9.44	
Laundry/Housekeeping/Maintenance		<u>8.36</u>	<u>7.70</u>	
Subtotal	\$ <u>4.61</u>	58.82	65.79	\$58.82
Administration & Med. Records	\$ <u>-</u>	<u>14.11</u>	<u>10.38</u>	<u>10.38</u>
Subtotal		72.93	\$ <u>76.17</u>	69.20
<u>Costs Not Subject to Standards:</u>				
Utilities		1.85		1.85
Special Services		.13		.13
Medical Supplies & Oxygen		3.47		3.47
Taxes and Insurance		.76		.76
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		\$ <u>79.14</u>		75.41
Inflation Factor (3.60%)				2.71
Cost of Capital				6.46
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				-
Cost Incentive				4.61
Effect of \$1.75 Cap on Cost/Profit Incentives				(2.86)
Minimum Wage Add-On				<u>.25</u>
 ADJUSTED REIMBURSEMENT RATE				 \$ <u>86.58</u>

INTEGRATED HEALTH SERVICES OF CHARLESTON AT DRIFTWOOD
Computation of Adjusted Reimbursement Rate
For the Contract Period December 1, 1998 Through March 31, 1999
AC# 3-DRF-J7

	<u>Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$40.76	\$48.65	
Dietary		9.70	9.44	
Laundry/Housekeeping/Maintenance		<u>8.36</u>	<u>7.70</u>	
Subtotal	<u>\$4.61</u>	58.82	65.79	\$58.82
Administration & Medical Records	<u>\$ -</u>	<u>14.11</u>	<u>10.38</u>	<u>10.38</u>
Subtotal		72.93	<u>\$76.17</u>	69.20
<u>Costs Not Subject to Standards:</u>				
Utilities		1.85		1.85
Special Services		.13		.13
Medical Supplies & Oxygen		3.47		3.47
Taxes and Insurance		.76		.76
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$79.14</u>		75.41
Inflation Factor (3.60%)				2.71
Cost of Capital				6.46
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				-
Cost Incentive				4.61
Effect of \$1.75 Cap on Cost/Profit Incentives				(2.86)
CNA Add-On				.75
Minimum Wage Add On				<u>.25</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$87.33</u>

INTEGRATED HEALTH SERVICES OF CHARLESTON AT DRIFTWOOD
Computation of Adjusted Reimbursement Rate
For the Contract Period April 1, 1999 Through September 30, 1999
AC# 3-DRF-J7

	<u>Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$40.76	\$45.26	
Dietary		9.70	9.44	
Laundry/Housekeeping/Maintenance		<u>8.36</u>	<u>7.70</u>	
Subtotal	<u>\$3.58</u>	58.82	62.40	\$58.82
Administration & Medical Records	<u>\$ -</u>	<u>14.11</u>	<u>10.38</u>	<u>10.38</u>
Subtotal		72.93	<u>\$72.78</u>	69.20
<u>Costs Not Subject to Standards:</u>				
Utilities		1.85		1.85
Special Services		.13		.13
Medical Supplies & Oxygen		3.47		3.47
Taxes and Insurance		.76		.76
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$79.14</u>		75.41
Inflation Factor (3.60%)				2.71
Cost of Capital				6.46
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				-
Cost Incentive				3.58
Effect of \$1.75 Cap on Cost/Profit Incentives				(1.83)
CNA Add-On				.75
Minimum Wage Add On				<u>.25</u>
 ADJUSTED REIMBURSEMENT RATE				 <u>\$87.33</u>

INTEGRATED HEALTH SERVICES OF CHARLESTON AT DRIFTWOOD

Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1997
AC# 3-DRF-J7

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>		Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$2,690,624	\$	320 (2)	\$ 75,984 (1) 320 (3) 9,312 (4) 94,633 (6) 201,600 (7)	\$2,309,095
Dietary	582,372	-		10,569 (6) 22,482 (7)	549,321
Laundry	155,085	-		1,421 (1) 1,747 (4) 1,040 (6) 2,213 (7)	148,664
Housekeeping	230,677	-		7,015 (6) 14,921 (7)	208,741
Maintenance	123,591	-		2,303 (6) 4,899 (7)	116,389
Administration & Medical Records	809,569	28,210 (5)		12,239 (6) 26,036 (7)	799,504
Utilities	146,696	-		42,045 (4)	104,651
Special Services	76,426	1,016 (8)		330 (6) 702 (7) 69,269 (9)	7,141

INTEGRATED HEALTH SERVICES OF CHARLESTON AT DRIFTWOOD

Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 1997
 AC# 3-DRF-J7

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Medical Supplies & Oxygen	239,026	213,238 (8)	2,683 (1) 252,785 (4) 148 (6) 315 (7)	196,333
Taxes & Insurance	121,435	-	76,613 (4) 1,520 (5)	43,302
Legal Fees	-	-	-	-
Cost of Capital	489,649	41,521 (11)	21,125 (2) 19,335 (3) 95,584 (5) 29,096 (10)	366,030
Subtotal	5,665,150	284,305	1,100,284	4,849,171
Ancillary	169,342	-	-	169,342
Non-Allowable	2,313,734	80,088 (1) 20,805 (2) 19,655 (3) 382,502 (4) 68,894 (5) 128,277 (6) 273,168 (7) 69,269 (9) 29,096 (10)	214,254 (8) 41,521 (11)	3,129,713
Total Operating Expenses	<u>\$8,148,226</u>	<u>\$1,356,059</u>	<u>\$1,356,059</u>	<u>\$8,148,226</u>
Total Patient Days	<u>56,648</u>	<u>-</u>	<u>-</u>	<u>56,648</u>
Total Beds	<u>160</u>			

INTEGRATED HEALTH SERVICES OF CHARLESTON AT DRIFTWOOD

Adjustment Report
Cost Report Period Ended September 30, 1997
AC# 3-DRF-J7

ADJUSTMENT <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Nonallowable	\$ 80,088	
	Nursing		\$ 75,984
	Laundry		1,421
	Medical Supplies and Oxygen		2,683
	To adjust accounts to the amounts per the general ledger HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Accumulated Depreciation	47,149	
	Other Equity	128,415	
	Restorative	320	
	Nonallowable	20,805	
	Fixed Assets		175,564
	Cost of Capital		21,125
	To adjust fixed assets and related depreciation to allowable HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
3	Accumulated Depreciation	47,694	
	Other Equity	279,195	
	Nonallowable	19,655	
	Fixed Assets		326,889
	Restorative		320
	Cost of Capital		19,335
	To remove expenses not adequately documented HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
4	Nonallowable	382,502	
	Nursing		9,312
	Laundry		1,747
	Utilities		42,045
	Taxes, Insurance and Licenses		76,613
	Medical Supplies and Oxygen		252,785
	To disallow expenses not adequately documented HIM-15-1, Section 2304		

INTEGRATED HEALTH SERVICES OF CHARLESTON AT DRIFTWOOD

Adjustment Report
Cost Report Period Ended September 30, 1997
AC# 3-DRF-J7

ADJUSTMENT NUMBER	ACCOUNT TITLE	DEBIT	CREDIT
5	Administration	28,210	
	Nonallowable	68,894	
	Taxes, Insurance and Licenses		1,520
	Cost of Capital - Depreciation		40,485
	Cost of Capital - Interest Income		55,099
	To adjust home office costs to allowable		
	State Plan, Attachment 4.19D		
	DH&HS Expense Checklist		
	HIM-15-1, Sections 2150 and 2304		
6	Nonallowable	128,277	
	Nursing		88,443
	Restorative		6,190
	Dietary		10,569
	Laundry		1,040
	Housekeeping		7,015
	Maintenance		2,303
	Administration		10,950
	Medical Records		1,289
	Medical Supplies and Oxygen		148
	Therapy		330
	To adjust salaries to allowable		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
7	Nonallowable	273,168	
	Nursing		188,433
	Restorative		13,167
	Dietary		22,482
	Laundry		2,213
	Housekeeping		14,921
	Maintenance		4,899
	Administration		23,293
	Medical Records		2,743
	Medical Supplies and Oxygen		315
	Therapy		702
	To adjust fringe benefits and related		
	allocation to allowable		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		

INTEGRATED HEALTH SERVICES OF CHARLESTON AT DRIFTWOOD

Adjustment Report
Cost Report Period Ended September 30, 1997
AC# 3-DRF-J7

ADJUSTMENT NUMBER	ACCOUNT TITLE	DEBIT	CREDIT
8	Medical Supplies & Oxygen Therapy Nonallowable	213,238 1,016	214,254
	To adjust special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
9	Nonallowable Therapy	69,269	69,269
	To disallow the co-insurance for Medicare Part B services due to insufficient documentation State Plan, Attachment 4.19D		
10	Nonallowable Cost of Capital	29,096	29,096
	To disallow expenses not adequately documented HIM-15-1, Section 2304		
11	Cost of Capital Nonallowable	41,521	41,521
	To adjust capital return to allowable State Plan, Attachment 4.19D		
12	<u>Memo Adjustment</u> To increase total square feet by 11,875 from 40,147 to 52,022 square feet		
	TOTAL ADJUSTMENTS	<u>\$1,858,512</u>	<u>\$1,858,512</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

INTEGRATED HEALTH SERVICES OF CHARLESTON AT DRIFTWOOD

Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1997
AC# 3-DRF-J7

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.1814</u>
Deemed Asset Value (Per Bed)	34,069
Number of Beds	<u>160</u>
Deemed Asset Value	5,451,040
Improvements Since 1981	615,348
Accumulated Depreciation at 9/30/97	(<u>1,871,096</u>)
Deemed Depreciated Value	4,195,292
Market Rate of Return	<u>0.067</u>
Total Annual Return	281,085
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	281,085
Depreciation Expense	140,044
Amortization Expense	-
Capital Related Income Offsets	(55,099)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	366,030
Total Patient Days (Minimum 97% Occupancy)	<u>56,648</u>
Cost of Capital Per Diem	\$ <u><u>6.46</u></u>

INTEGRATED HEALTH SERVICES OF CHARLESTON AT DRIFTWOOD

Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1997
AC# 3-DRF-J7

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$ 7.79
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$11.78</u>
Reimbursable Cost of Capital Per Diem	\$ 6.46
Cost of Capital Per Diem	<u>6.46</u>
Cost of Capital Per Diem Limitation	\$ <u>-</u>

COMMENTS AND RECOMMENDATIONS

Our agreed-upon procedures identified a condition that we have determined to be subject to correction or improvement. We believe this condition should be brought to your attention.

The provider's accounting records did not adequately support expenses claimed. Many of the items requested were never made available. Some of the items include: payroll registers, the cash receipts journal, invoices, general ledger journal entry support, and a general ledger which ties to the trial balance.

HIM-15-1, Section 2304 states:

"Cost information as developed by the provider must be current, accurate, and in sufficient detail to support payments made for services rendered to beneficiaries. This includes all ledgers, books, records, and original evidences of cost...which pertain to the determination of reasonable cost, capable of being audited."

By not maintaining sufficient documentation, to support costs claimed, the provider overstated expenses.

We recommend the provider maintain detailed records which sufficiently support expenses claimed and provide the Medicaid auditors access to all those records in a timely fashion.